

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AGR-05 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 L-03 EUR-12 NSC-05

SS-15 STR-04 CEA-01 /094 W

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R 051900Z MAY 76

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 1035

LIMITED OFFICIAL USE SAN SALVADOR 2106

DEPT PASS OPIC AND EX-IM AND COMMERCE

EO 11652: NA

TAGS: EPAP EAID EFIN EQIP ETRD ES

SUBJ: FINANCING GUARANTEE FOR SUGAR MILL PROJECT

1. FOMENTO DE INVERSIONES,; SA (FOINSA) HAS APPROACHED EMBASSY WITH QUERY ON POSSIBILITY OF AID GUARANTEE FOR PROPOSED FINANCING OF PROJECT TO CONSTRUCT SUGAR MILL. QUERY IS PROMPTED BY OFFER OF VAN ALSTYNE AND NOEL COMPANY OF NEW YORK TO FORM A GROUP OF INVESTING BANKERS TO MAKE ALOAN OF \$20 MILLION FOR PROJECT PROVIDED NOTES CAN BE "GUARANTEED" BY AID.

2. PROPOSED SUGAR MILL WOULD HAVE CAPACITY TO PROCESS 4,500 TONS OF CANE PER DAY. PROJECT HAS CHECKERED HISTORY OF CONSTANTLY RISING COST ESTIMATES, NECESSITATING SEARCH FOR MORE FINANCING, AND GOES UNWILLINGNESS TO DATE TO GUARANTEE INDEBTEDNESS. INVESTORS NOW HAVE COMMITMENT TO FRENCH FIRM DATING BACK SOME YEARS TO SUPPLY EQUIPMENT FOR 2000 TON/DAY MILL. THEY STAND TO LOSE \$1-2 MILLION ALREADY PAID THIS FIRM IF THEY BREAK CONTRACT. FOINSA STATES THAT ADDITIONAL EQUIPMENT NECESSARY TO BRING CAPACITY UP TO 4500 TONS/DAY WOULD BE PURCHASED IN U.S. FOINSA ALSO CLAIMS GOES IS NOW READY TO GUARANTEE INDEBTEDNESS

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FOR PROJECT. TOTAL VALUE OF PROJECT IS ESTIMATED AT \$22 MILLION -

\$16 MILLION IN LOANS AND \$6 MILLION EQUITY.

3. TERMS OF FINANCING OFFERED BY VAN ALSTYNE AND NOEL ARE AS FOLLOWS: NOTES ON PRINCIPLE TO MATURE IN 25 YEARS; INTEREST TO BE AT ANNUAL RATE APPROXIMATELY 1 PCNT ABOVE RATE ON LONG TERM USG BONDS; PRINCIPAL AMORTIZATION TO BEGIN MAY, 1981; NON-REFUNDABLE FEE OF \$200,000 TO BE PAID TO INVESTMENT BANKER GROUP, HALF UPON EXECUTION OF LOAN AGREEMENT AND HALF UPON DATE OF FIRST DISBURSEMENT. AS NOTED ABOVE, FINANCING CONDITIONAL PLAN "AID GUARANTEE".

4. EMBASSY NOT AWARE OF ANY EXISTING AID PROGRAM UNDER WHICH SUCH A CREDIT COULD BE GUARANTEED. FCIA WOULD ALSO SEEM TO BE RULED OUT BECAUSE OF LONG-TERM NATURE OF PROPOSED FINANCING. FINALLY, WE DO NOT SEE AN OPIC ROLE BECAUSE OF LACK OF U.S. INVESTMENT AND TERMS OF FINANCING REQUIRED. REQUEST CONFIRMATION OF THIS UNDERSTANDING.

5. NEVERTHELESS EMBASSY WISHES PURSUE ANY POSSIBILITY TO FACILITATE FINANCING FOR THIS PROJECT BECAUSE OF POTENTIALLY LARGE EXPORT SALE INVOLVED. ACCORDINGLY, WE INTEND TO SUGGEST THAT FOINSA EXPLORE POSSIBILITY OF EX-IM FINANCING OR FCIA GUARANTEE CONNECTED WITH PURCHASE OF U.S. EQUIPMENT OR, ALTERNATIVELY, LOOKING AT POSSIBILITY OF BRINGING IN U.S. EQUITY SO THAT OPIC MIGHT PLAY A ROLE WITH FINANCING OR POLITICAL RISK INSURANCE. EMBASSY WOULD APPRECIATE ANY COMMENTS FROM EX-IM OR OPIC ON THESE POSSIBILITIES.

6. ALSO REQUEST CHECK ON BONA FIDES OF VAN ALSTYNE AND NOEL COMPANY OF NEW YORK. THIS FIRM REPORTEDLY WORKS CLOSELY WITH SOLOMAN BROTHERS.
CAMPBELL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION EQUIPMENT, SUGAR, LOAN GUARANTEES, BANK LOANS, PROGRAMS (PROJECTS), INDUSTRIAL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 05 MAY 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: blochd0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SANSAS02106
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760174-0724
From: SAN SALVADOR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760588/aaaacxje.tel
Line Count: 94
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: blochd0
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUL 2004 by izenbei0>; APPROVED <25 OCT 2004 by blochd0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINANCING GUARANTEE FOR SUGAR MILL PROJECT
TAGS: EPAP, EAID, EFIN, EQIP, ETRD, ES
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006